

The arms trade: Business as usual?

Foreign Policy; Washington; Winter 1997/1998; William W Keller; Janne E Nolan;

Issue: 109
Start Page: 113-125
ISSN: 00157228
Subject Terms: Arms control
Foreign policy
International relations
Military sales

Abstract:

Unless stricter controls are implemented on the export of conventional weapons, the global arms bazaar could, literally, explode. The absence of policy in the world's largest arms dealers has given way to a global frenzy of marketing.

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Question: What is the post-Cold War global policy on conventional arms sales? Answer: Competition. Or free trade, as some might say. Increasingly, almost everyone sells almost anything to just about anyone who can pay-and often to some who cannot. On rare occasions, some countries deny advanced weapons to unstable regions or to so-called pariah states. But then some other seller seizes the competitive opportunity created by the denial, makes a rogue sale, and the arms lobby cries, "foul play." In the absence of any enforceable multilateral restraints, the invisible hand has become the principal mechanism for allocating potent conventional weapons and associated technologies on a global basis.

Globalization of arms production and military technology is a form of proliferation that threatens the emerging framework of agreements on weapons of mass destruction as well as the global system of trade and investment. It is a direct impediment to the achievement of peace and international security. Clearly, the world needs a new concept of proliferation that can override parochial economic interests and the fanciful notion that conventional arms are commodities that should be traded freely. It is plainly worth working toward this end. But in the meantime, we have to face the facts: There is no clear policy toward global arms exports and the transfer of military technology, any rhetoric to the contrary notwithstanding.

FROM COLD WAR TO COLD CASH

There was a time when geopolitical calculations drove the arms trade. During the Cold War, Washington made surplus military equipment available to its NATO allies to enhance inter-operability and the West's capability for collective self-defense. Arms transfers and joint-military training exercises provided a ready-made infrastructure for U.S. forces, should intervention be necessary. Similarly, the Soviets made arms available throughout the Warsaw Pact. A clear policy on both sides.

Later, under the Nixon Doctrine, technical assistance and some arms production technology was extended to Asia-Japan, South Korea, and Taiwan. The theory was that such transfers would extricate the United States from potential foreign entanglements, reduce the likelihood of having to commit troops, and help build up the ability of close allies in East Asia to produce military equipment. Almost in parallel, the Kremlin moved from military production within the Soviet Republics to production throughout the Warsaw Pact. The Russians, however, were always more reluctant than the Western

powers to transfer the underlying production technology.

Throughout the 1970s, and again in parallel, the United States and the Soviet Union extended arms and production technology more widely to their respective allies and surrogates in the developing world. So did the Europeans, who had rebuilt their arms industries, but for different reasons. They felt compelled to export their most advanced weapons to reach economies of scale and fund the next round of research and development.

By the 1980s, arms sales had become a well-worn diplomatic currency of foreign policy. They did not hurt the balance of payments, either, as weapons sales became a way to recoup petrodollars from the suddenly affluent Persian Gulf countries in the aftermath of the 1970s' oil shocks. In one case-the "Al Yamamah" deal-British Aerospace exported approximately \$30 billion dollars in arms to Saudi Arabia in exchange for oil.

Throughout the 1980s, many new arms exporters entered the fray: Brazil, Bulgaria, China, Egypt, Israel, North Korea, South Korea, Spain, and Yugoslavia, among others. Between 1978 and 1988, the listed countries exported approximately \$45 billion in arms in constant 1988 dollars. They were able to do so in large measure because they obtained military production technology from the major arms trading nations. Between 1978 and 1982, for instance, the number of countries involved in major licensing or coproduction agreements with the United States nearly doubled. These nations had varied motivations for developing a domestic arms industry. For some, it represented a chance to reduce military reliance upon the major industrial powers. Other countries saw it as a way to offset foreign debt and promote exports. Often, these producers were able to find a competitive niche, since their products were cheaper (albeit less sophisticated) than U.S. or European armaments. As the ability to produce major weapons proliferated, the political will to control their destination diminished on all sides.

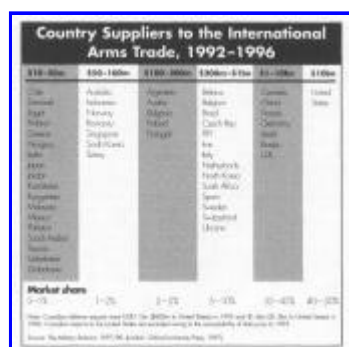
But even when arms sales were crafted within the confines of foreign policy, the results were not always predictable. Throughout the 1970s, the United States sold \$11 billion in military hardware to Iran and trained 11,000 Iranian military officers as part of an effort to build the shah into an anti-Soviet guarantor of Persian Gulf security. The weapons failed in their purpose-to enhance the stability of a friendly, moderate government in the region. In fact, the arms sales hastened the shah's downfall. Outrageous government expenditures led to spiraling inflation and, in the eyes of the Iranian public, about the only people making a decent living were corrupt government officials skimming off defense contracts and American technical advisers.

The arms that were sold to the shah were later used by the Islamic Republic to wage war against Iraq. Fearing the spread of the Islamic revolution from Tehran, the United States saw the arming of Iraq as a logical strategic response. Even though Washington did not sell weapons to Iraqi president Saddam Hussein, it quietly encouraged British, French, and other transfers and winked as China and Russia sold thousands of tanks, missiles, combat aircraft, armored personnel carriers, and other weapons to the region. The Iran-Iraq War, and the associated orgy of arms sales to the belligerents (\$87.8 billion between 1981 and 1988) and to other states in the region, emboldened Hussein and raised the general level of armaments to dangerous, disproportionate, and ultimately unstable levels. When Iraq invaded Kuwait, the United States and its coalition were then compelled to step in to redress the imbalance.

In a rare moment of candor, former secretary of state James Baker once described the three primary reasons for American engagement in the Persian Gulf: "jobs, jobs, jobs." That statement would prove to be prophetic, although perhaps not in the way Baker had intended. The superior performance of

American weapons in the Gulf War positioned U.S. companies to win major new business from that and other regions. As the Cold War wound down, the Russians lost their foothold in the international arms trade. The value of their arms exports dropped from \$29.9 billion in 1987 to \$2.7 billion in 1992. The need for hard currency meant they could no longer make weapons available on soft financial conditions. The formation of newly independent and less cooperative nation-states disrupted the military production network of the former U.S.S.R. At the same time, competition was heating up: As the industrialized Western powers reduced their procurement budgets, foreign business became a critical profit center, even determining the survival of many companies.

The White House helped whenever it could. The Bush administration actively promoted and negotiated the lion's share of the \$83.1 billion in arms export agreements in the four years following 1990 (up from \$34.5 billion during the previous four years). Arms sales went on to be a hot issue in the 1992 election. Both presidential candidates actively campaigned on the defense circuit. The issue, however, was not national security, not even as a fig leaf. The issue was jobs for Americans tied to arms exports in defense-dependent communities in swing states. A new lobbying organization, U.S. Jobs Now, composed of six defense contractors and six labor unions, spread its glossy brochures and videotapes throughout the power centers of Washington, promising work for Americans tied to massive exports of potent weapons to the Persian Gulf and East Asia. In the context of domestic electoral politics, U.S. arms exports became just another jobs program.



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Country Suppliers to the International Arms Trade,
1992-1996

But the idea that a small, semi-industrialized country like Iraq could acquire such a destructive arsenal was a wake-up call for some policymakers in Washington. To send a signal to the White House, Congress mandated the creation of the Presidential Advisory Board on Arms Proliferation Policy in 1994. Two years later, the board set forth its analysis, recommending that controlling the spread of conventional arms and technology transfers should become an "integral element" of U.S. foreign and defense policy. It called upon the White House to "push for international consensus and control mechanisms" to limit arms proliferation, and declared American leadership to be "essential" to this process. The board suggested that the best solution to overcapacity in the arms industries would be to "reduce supply rather than increase demand" and argued that weapons sales would only protect jobs in the short term.

These recommendations were submitted to the White House, which issued a directive to the bureaucracy for an "expedited review." The response? "Drop anchor," as one seasoned bureaucrat put it. All the agencies in the departments of Commerce, Defense, and State—all but the Arms Control and Disarmament Agency—deemed the subject far too controversial and of insufficient priority to comply.

And what of the White House? President Bill Clinton's "Policy on Conventional Arms Transfer," issued

in 1995, turned out to be a nonpolicy. The administration displayed early on a propensity to try to reconcile conflicting interests, to compromise and adjust, until the policy in question was obscured. The official policy paid lip service to the idea of restraint, but for the first time also explicitly sanctioned arms exports as a way to shore up U.S. military industrial interests. One of several principal goals was "to enhance the ability of the U.S. defense industrial base to meet U.S. defense requirements . . . at lower costs." U.S. officials were instructed to consider "the impact [of the sale] on U.S. industry and the defense industrial base" as a general criterion for decision making on U.S. arms exports.

The most recent White House policy statement in August 1997 underscored the no-policy approach. Regarding arms sales to Latin America, it said, "the President has decided to establish a process for case-by-case consideration of requests for advanced arms," thus putting Latin America "on a par with our policy toward other regions of the world." A 20-year policy of restricting the flow of advanced weapons to Latin America was abrogated in favor of the discretionary, ad hoc decision making that characterizes the rest of U.S. arms exports. In other words, no policy.

The absence of policy in the world's largest arms dealer has given way to a global frenzy of marketing. Today, the U.S. approach to arms exports closely resembles that of the Europeans-economically driven, with ambassadors and cadres of industry representatives lobbying foreign procurement officials, Saudi princes, and heads of state everywhere. America's share of the global arms market is nearly 43 percent, with Western Europe coming in at second place with a 41 percent share. Companies and their governments have upped the ante, offering more sophisticated technology, licensed production, and a broad array of inducements to offset the foreign exchange importing countries would need to finance their military shopping sprees. This past summer, for instance, Lockheed Martin, hoping to secure a purchase of its F-16 fighters, offered the Czech government an "industrial cooperation" package that included assistance in marketing Czech products worldwide and the transfer of advanced technologies and management expertise to enhance Czech industrial competitiveness.

WEAPONS OF MASS DISTINCTION

The failure to develop a policy to deal with arms sales is, in part, a reflection of a larger failure to define and engage a concept of proliferation that can elevate state interests above those of finance capital, the arms traders, and their lobbyists. Historically, nonproliferation efforts have focused on the so-called weapons of mass destruction: Nuclear, biological, and chemical. In recent years, longer-range ballistic and cruise missiles have been added to the list because they are efficient delivery vehicles for nuclear weapons, although their utility in conveying chemical and biological agents is often less certain. There are also less successful efforts to control so-called "weapons of ill repute," such as antipersonnel mines, blinding lasers, and a variety of fragmentation and incendiary devices. At the same time, and in a gaping logical disjunction, shorter-range missiles, combat aircraft, surface ships, and submarines-all of which can deliver weapons of mass destruction-continue to be traded widely.

Mass destruction is an ancient phenomenon, and need not employ nuclear, chemical, or biological ordnance. The Greeks committed it with such relish at the fall of Troy that they angered the gods. It was accomplished some 50 years ago in the Allied firebombings of Dresden, Frankfurt, and Tokyo. More recently mass destruction occurred in the Persian Gulf wars and in Rwanda. This unsavory business can be perpetrated in an instant, or over a period of days or weeks. But it is not confined to particular kinds of destructive implements, as the Hutu government demonstrated in a highly organized genocide of 800,000 Tutsis, carried out mainly with machetes, small hammers, and a variety of blunt objects.

As the Gulf War demonstrated, the destructive power of a coordinated conventional attack can achieve levels of devastation associated with weapons of mass destruction, even on the battlefield. Estimates on the number of Iraqi casualties in the land war vary, but almost everyone agrees the number is above several tens of thousands, the vast majority of which occurred in the span of a few hours. Moreover, the attack was broken off at its height at least in part because American officials sought to minimize the negative publicity that would result from total mass destruction of the Iraqi army. The increased accuracy, power, and lethality of conventional weaponry will only be enhanced as future generations of weapons platforms incorporate more sophisticated electronics, mostly from the commercial sectors of the global information economy.

If conventional weapons are to take their rightful place within the arsenal of mass destruction, then the distinctions among various weapons must be addressed. It is not a simple dichotomy, conventional on one side and unconventional on the other. Indeed, the technical hurdles, levels of lethality, and delivery requirements of nuclear, chemical, and biological weapons are highly dissimilar. Nuclear weapons are harder to make or acquire than biological or chemical ones. But they do not need to be targeted as precisely, nor do they require complex means of dispersing submunitions or aerosol technologies often used with chemical and biological agents.

In short, the category "weapons of mass destruction" is based more on historical usage than on logical grounds or on analysis of the characteristics of various weapons. But the false dichotomy between weapons of mass destruction and conventional weapons has helped to legitimize arbitrary limits on nonproliferation, both intellectually and in terms of specific treaties and regimes. If it is not a weapon of mass destruction, a missile to carry one, or occasionally a weapon of ill repute, then it is presumed to have a legitimate place in commerce and warfare. Consequently, there are few if any controls over the sale of such weapons or the transfer of their underlying production technologies. The choice is between a narrow and a comprehensive definition of proliferation, and the policy community has opted for the former.

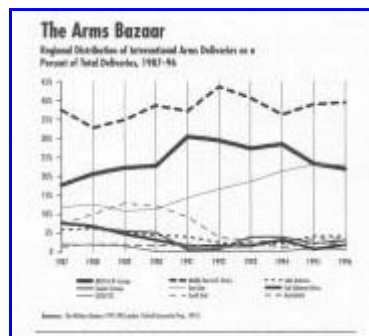
FASTER, BETTER, DEADLIER

Military industry and technology is spreading around the globe at an accelerating rate. Throughout the 1980s and afterwards, more than 180 major weapons systems were in international production at any given time. Today it is an ordinary phenomenon, with literally thousands of international subcontracting arrangements. Codevelopment and licensed production of components and weapon systems among arms firms of different nations are rising steadily. Major arms manufacturers engage in international mergers, acquisitions, corporate alliances, and subcontracting to gain access to foreign technology and markets. With the weakening of ideological and national identities associated with the Cold War, the development, production, and marketing of advanced conventional weapons began to resemble other sectors of the international economy.

The scale, sophistication, and destructive capability of military technology entering the international marketplace are also increasing dramatically, in large measure because of government promotion. Such a policy might make sense if you believe you can always stay ahead, as was once thought to be the case for U.S. companies across the range of high-technology industries. As the Europeans made their state-of-the-art military equipment available for export, U.S. military exports moved up the technology ladder to outstrip the competition. Yesterday's advanced fighter is today's surplus equipment. As such, it can be licensed for foreign production. There was a time when the underlying technologies for the F-15 fighter and the M-1A2 main battle tank were crown jewels of the military-industrial alliance. Today the

United States is hawking them on the auction block.

Military contractors say technology transfer is an element of market competition that offers greater efficiency and is often required to consummate a sale. But it carries far more profound implications: Many arms manufacturers have come to view their own business strategy-its research and development, direct investment, production networks, joint ventures, sales, and service operations-as multinational in character. Facing overcapacity and exponential increases in the cost of developing new weapons, they seek, like other high-technology industries, to establish international networks of supply and production and to export military technology, components, and finished weapons to meet demand wherever it may exist. As the market gets tighter and tighter, the impulse to sell the store gets harder to resist.



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The Arms Bazaar

John J. Dowdy, writing in the Summer 1997 issue of *FOREIGN POLICY* ("Winners and Losers in the Arms Industry Downturn"), reflects the strictly business orientation of the arms industry today in what he characterizes as the "new global environment." What are the lessons learned? "Use aggressive marketing abroad. To survive in this era of declining sales, successful companies have pursued an aggressive international marketing strategy, targeting such export markets as Asia and the Middle East." Ultimately, he suggests, neither Europe nor the United States "can afford to rely on domestic markets alone."

As we enter the age of global trade and investment, most industries can make powerful arguments in favor of free and open commerce. But these arguments simply cannot be extended to commerce in military technology and advanced weapons. Arms industries exist because the state needs to ensure its national security and has developed industrial policies to that end. But today, these corporations have forgotten their origins and are growing and adapting to meet the demands of the global marketplace, not the individual state. Preserving the illusion that these companies exist for nations is both misleading and dangerous. It erodes the central mechanisms that safeguard both national and international security.

In other words, the analysis offered by Dowdy and his colleagues is nearly devoid of policy and normative content. It fails to recognize the profound differences that exist between the arms industry and other sectors of the economy. The most important difference is who is on the receiving end. Most trade, investment, and cross-border technology diffusion is contained within the triad of East Asia, North America, and Western Europe. Not so with the military trade. Historically, about 80 percent of the arms trade is a transfer of military goods, services, and technology from a few industrialized countries to a large number of less developed states. This brings up the somewhat indelicate point that a large portion of the arms traded go to authoritarian regimes in regional hot spots where the history and likelihood of war is the greatest.

Arms transfers can and do upset military balances, but they can rarely create or sustain them. History

and logic combine to demonstrate time and again that one nation's balance is another's threat. Opposing, highly armed camps turn into powder kegs. A spark ignites a conflagration. War after war in the Middle East and Persian Gulf has followed one arms import frenzy after another. At some point, it becomes impossible to say which came first-war or the means by which it was prosecuted. The causality is not as important as the occurrence. The globalization of the arms business might prove to be an irreversible trend, but not taking steps to regulate this phenomenon is dangerous and shortsighted. And it is also inexcusable because, in economic terms, the value of military exports is minuscule, only .7 percent of global trade. Their impact upon international security far exceeds their economic value.

UNCONVENTIONAL SOLUTIONS

As the products of high-technology information companies are incorporated into weapons, a sound multilateral policy on the export of arms and transfer of military technology becomes increasingly important. The barriers between civilian and military technology are breaking down. Under a special U.S. Air Force program, a commercial division of TRW that makes circuit boards for trucks, has also manufactured them for F-22 aircraft. Greater transparency and controls on the end use of sensitive dual-use, civil-military technologies need not impede the global operations of legitimate businesses in the high-technology commercial sectors. Policymakers and business leaders have made this discrimination in the fields of nuclear, chemical, and biological weapons-and for some missiles. It is now time to do the same with respect to so-called conventional weapons.

As matters now stand, there is no global policy on arms sales or the transfer of technology with potential military applications. It is economically driven, despite the convenient rationalizations of interested government officials and arms merchants. Moreover, there is no functional equivalent for the Coordinating Committee for Multilateral Export Controls that restricted sales of military technology and equipment to the Soviet Bloc during the Cold War. The Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, signed by 33 nations on July 12, 1996, has received scant attention from the policy community and ridicule from the arms lobby, and it is presently languishing with no high-level involvement. Wassenaar does not have the "teeth" to control arms exports. It only serves as a forum for exchanging information about weapons sales. If Wassenaar is to have any effect, it must, at a minimum, identify a set of specific technologies and particular weapons that must not be proliferated.

In lieu of making an immediate and sustained commitment to a Wassenaar process of this kind, there are a few practical steps that could begin to address the situation. Increasingly there are calls for the United States, as the world's primary arms merchant, to exercise restraint and exert some leadership. The conventional wisdom is not wide of the mark. It is both morally and politically indefensible to tell other nations-such as China, France, and Russia-to reduce arms sales when U.S. officials and arms companies are conducting a fullcourt press to dominate international markets.

First, the **United States** might consider multilateral steps to monitor the end use of **technologies** that have possible military applications. Export controls can be effective when dealing with certain types of technology-such as advanced guidance systems crucial to missile development-that are in the hands of only a few suppliers. But it is more problematic to restrict the trade of potentially lethal technologies that also serve "legitimate" commercial purposes. An effective nonproliferation regime, therefore, would have to monitor how these dual-use technologies are applied. Such end-use arrangements would require heightened levels of transparency in **international trade** and effective enforcement mechanisms.

Second, the administration could establish a mechanism to give a higher degree of scrutiny to cross-border investments, mergers, and acquisitions of arms companies. This should not be interpreted as an effort to interfere with the global operations of multinational corporations that are not in the business of making and selling arms, or even those in the business of making or selling dual-use technologies. There could be a presumption against the globalization of military industry and technology that would have to be pursued on a multilateral basis.

Third, even if the administration does not decide to join the multilateral convention to ban antipersonnel land mines, it should consider negotiations to identify and oppose exports of a broader range of weapons of ill repute. Trade in such weapons could be stigmatized on a multilateral basis, and trade in technologies directly associated with such weapons could be carefully screened to identify the destination and purpose of the transfer. This would create a basis for more ambitious undertakings aimed at a broader cross section of advanced weapons as their role in political destabilization and mass destruction is better understood.

Even these initial steps would require a degree of political will and leadership uncommon in the post-Cold War era. But it is not impossible because the stakes are high. The conduct and fluidity of the vast majority of international businesses can and will be made less predictable as they expand to meet the needs of new and emerging markets-if the trade in arms and military technology continues apace. It is worth noting that the United States would have a ready ally in such undertakings with the world's second largest economy, Japan, which long ago prohibited arms exports on a unilateral basis.

In the absence of such efforts, we will be confronted once again with the paradox of proliferation. It tells us that the same technologies and capabilities that propel a developing state into the modern era are also those that form the basis of the most pernicious weapons, both so-called conventional weapons and so-called weapons of mass destruction. In the end, the question reverts to whether policymakers can elaborate a concept of nonproliferation that places peace and international security above the special interests of a few companies and officials who promote the global arms trade without regard to its long-term consequences.

[Reference]

WANT TO KNOW MORE?

[Reference]

For further insights into the dynamics of the arms bazaar, readers should consult two recent works by William W. Keller, *Arm in Arm: The Political Economy of the Global Arms Trade* (New York: Basic Books, 1995) and "The Political Economy of Conventional Arms Proliferation" (*Current History*, April 1997). Janne E. Nolan tracks a disturbing trend in her book *The Trappings of Power: Ballistic Missiles in the Third World* (Washington, D.C.: Brookings Institution Press, 1991). Researchers should take note of two government reports: *Global Arms Trade: Commerce in Advanced Military Technology and Weapons*, Office of Technology Assessment, U.S. Congress (Washington, D.C.: Government Printing Office, June 1991) and *Report of the Presidential Advisory Board on Arms Proliferation Policy*, which can be downloaded from the Web site of the Federation of American Scientists. The Arms Sales Monitoring Project is also at this Web site and can be accessed via www.foreignpolicy.com.

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